

ASHLEY VALLEY SEWER MANAGEMENT BOARD

ANNUAL FINANCIAL REPORT

December 31, 2006

**Ashley Valley Sewer Management Board
P.O. Box 426
Vernal, UT 84078
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ASHLEY VALLEY SEWER MANAGEMENT BOARD

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ashley Valley Sewer Management Board
Vernal, Utah

We have audited the accompanying statements of net assets; revenues, expenses, and changes in net assets; and cash flows of Ashley Valley Sewer Management Board (Board), as of and for the years ended December 31, 2006 and 2005, which collectively comprise the Board's basic financial statements. These financial statements are the responsibility of Ashley Valley Sewer Management Board management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ashley Valley Sewer Management Board, as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2007 on our consideration of Ashley Valley Sewer Management Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Caldwell, Coombs & Foley, LLP

Vernal, Utah

July 2, 2007

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Management's Discussion and Analysis December 31, 2006 and 2005

As management of Ashley Valley Sewer Management Board we present to the readers of our financial statements this discussion and analysis of the Board's financial performance for the fiscal years ended December 31, 2006 and 2005.

FINANCIAL STATEMENTS

The Board's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States, promulgated by the Governmental Accounting Standards Board (GASB). The Board reports as a single enterprise fund. Revenues are recognized when earned and expenses are recognized in the period in which they are incurred. See the notes to the financial statements for a summary of the Board's significant accounting policies.

	2006	2005	2004
ASSETS			
Current assets	\$ 1,005,466	\$ 1,150,270	\$ 4,129,741
Restricted assets	978,676	968,516	968,308
Long-term deposits and investments	3,201,433	3,055,338	
Capital assets, net	18,874,494	19,395,395	20,127,854
Other assets	1,273	1,273	1,273
Total assets	<u>24,061,342</u>	<u>24,570,792</u>	<u>25,227,176</u>
LIABILITIES			
Current liabilities	446,287	439,877	388,342
Long-term debt	5,060,000	5,284,000	5,604,000
Total liabilities	<u>5,506,287</u>	<u>5,723,877</u>	<u>5,992,342</u>
NET ASSETS			
Invested in capital assets, net of related debt	12,992,645	13,730,043	14,143,350
Restricted	978,676	968,516	968,308
Unrestricted	4,583,734	4,148,356	4,123,176
Total net assets	<u>18,555,055</u>	<u>18,846,915</u>	<u>19,234,834</u>
Total liabilities and net assets	<u>\$ 24,061,342</u>	<u>\$ 24,570,792</u>	<u>\$ 25,227,176</u>

Financial Analysis

Current assets decreased approximately \$145,000 (13%) in 2006 as compared to 2005 due primarily to decreases in cash balances required for operations. The decrease of approximately \$2,979,000 (72%) in current assets in 2005 as compared to 2004 is primarily due to reclassification of deposits in long-term certificates of deposit.

The decrease of approximately \$521,000 (3%) in capital assets at the end of 2006 as compared to 2005, and the decrease of approximately \$732,000 (3.6%) at the end of 2005 as compared to 2004 is due to the continuing addition, replacement, and improvement of the Board's lift station, trunk-line, and waste water treatment facility, less the associated depreciation cost of approximately \$779,000 and \$813,000 2006 and 2005, respectively.

Current liabilities decreased approximately \$6,500 (1%) at the end of 2006 as compared to 2005. Decreases in accounts payable were mostly offset by increases in accrued salaries and benefits and accrued leave. The approximate increase of \$51,000 (13%) in current liabilities at 2005 as compared to 2004 is mainly due to increases in trade accounts payable and accrued leave.

Long-term debt balances decreased from 2004 to 2005 and 2005 to 2006 due to scheduled bond payments paid. In 2006 bond payments were partially offset by the issuance of \$100,000 in sewer revenue bonds.

CHANGE IN NET ASSETS

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 1,135,010	\$ 1,080,437	\$ 1,049,885
Operating expenses	(1,650,384)	(1,605,141)	(1,587,403)
Operating loss	(515,374)	(524,704)	(537,518)
Non-operating income and expense	223,514	136,785	60,639
Net income	(291,860)	(387,919)	(476,879)
Total net assets			
Beginning of year	18,846,915	19,234,834	19,711,713
End of year	<u>\$ 18,555,055</u>	<u>\$ 18,846,915</u>	<u>\$ 19,234,834</u>

SUMMARY OF REVENUES

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating:			
User fees from participating agencies	\$ 1,106,829	\$ 1,060,180	\$ 1,029,380
Miscellaneous income	28,566	20,257	20,505
Total operating	<u>1,135,395</u>	<u>1,080,437</u>	<u>1,049,885</u>
Non-operating:			
Interest income	186,874	165,919	131,375
Capital contributions	100,000	40,000	
Gain (loss) on sale of assets	385	(1,246)	
Total non-operating	<u>286,874</u>	<u>205,919</u>	<u>131,375</u>
Total revenues	<u>\$ 1,422,269</u>	<u>\$ 1,286,356</u>	<u>\$ 1,181,260</u>

The operating revenue increases of approximately \$55,000 (5%) in 2006 and \$30,000 (2.9%) in 2005 as compared to the prior years is due to an increased number of customers of the participating agencies and increased volume in septic dump fees.

The increases interest between 2004 and 2006 are entirely due to changes in interest rates earned.

The Board received capital contributions (grants) in 2006 and 2005 in the amounts \$100,000 and \$40,000, respectively, to aid in the construction of a sludge drying pad, construction of a building and the purchase of a video surveillance security system.

SUMMARY OF EXPENSES

	2006	2005	2004
Operating:			
Direct operating and maintenance	\$ 871,887	\$ 791,776	\$ 778,866
Depreciation	778,497	813,365	808,537
Total operating expenses	1,650,384	1,605,141	1,587,403
Non-operating expenses	63,745	67,888	70,736
Total expenses	\$ 1,714,129	\$ 1,673,029	\$ 1,658,139

The increases of approximately \$80,000 (10%) in operating expenses during 2006 as compared to 2005, and the increases of approximately \$18,000 (1.1%) during 2005 as compared to 2004 are mainly due to increases in utilities costs, system repairs and maintenance costs, and payroll and payroll-related costs.

CAPITAL ASSETS ACTIVITY

The Board expended approximately \$287,000 during 2006 for construction of a sludge-drying pad, a building, transportation equipment, and a video surveillance security system. The cost of these assets was partly financed by a grant of \$100,000 and a loan (revenue bonds) of \$100,000.

During 2005, the Board expended approximately \$106,000 on capital assets. The most significant expenditures were for the sludge-drying pad, transportation equipment, and machinery and equipment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

During the second half of 2005 and the first half of 2006, the Water Reclamation Facility saw an increase in the amount of septic hauler activity and an increase in the daily average of wastewater being treated. The increase in septic hauler activity is attributed to increased oil and gas exploration. To help cover the cost and impact the septic haulers have on the treatment facility, the Board elected to increase dumping fees for the commercial septic haulers.

The increase in the daily average of wastewater being treated is due to increased of population in the Uintah Basin. By the end of 2006 the daily average of wastewater being treated increased to over 2.36 MGD, which is half of the design capacity of the treatment plant. If the population growth continues through 2007, it is expected the treatment facility will have to open the second oxidation ditch and possibly the second clarifier by mid to late 2007. If the second oxidation ditch and clarifier are put into operation, the power cost for the treatment facility will increase approximately 20%, to an average of over \$16,500 per month.

To prepare for the possibility of opening additional areas of the treatment facility, the Board elected to increase the monthly treatment cost per ERU (equal residential unit) of 15%, effective January 2007. This is the first rate increase since 1999 when the Board raised rates to cover cost for the new mechanical treatment facility. The entities will see an increase of 10% from \$12.48 to \$13.73 for a single family resident and multi-unit residents and an increase from \$16.57 to \$18.23 for commercial users. The rate for commercial water use of 8,000 gallons per month will increase to \$1.50 from \$1.25 per thousand gallons per month. The Board will make up the additional 5% from the interest generated from grant money received from the Bureau of Reclamation that has been invested to help offset the cost for the operation and maintenance of the treatment facility.

REQUESTS FOR INFORMATION

This financial report is designed to give its readers a general overview of the Board's finances. Questions regarding any information contained in this report, or requests for additional information, should be addressed to the General Manager, P.O. Box 426, Vernal, Utah 84078.

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Statements of Net Assets

December 31, 2006 and 2005

	2006	2005
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 688,289	\$ 848,537
Receivable from participating agencies	278,597	264,369
Other accounts receivable	2,690	2,115
Accrued interest receivable	11,845	11,365
Prepaid expenses	24,045	23,884
Total current assets	<u>1,005,466</u>	<u>1,150,270</u>
RESTRICTED ASSETS		
LT Cash held for bond sinking fund requirements	<u>978,676</u>	<u>968,516</u>
Total restricted assets	<u>978,676</u>	<u>968,516</u>
LONG-TERM DEPOSITS & INVESTMENTS		
Long-term cash deposits	<u>3,201,433</u>	<u>3,055,338</u>
Total long-term deposits & investments	<u>3,201,433</u>	<u>3,055,338</u>
CAPITAL ASSETS, at cost		
Non-depreciable capital assets	137,750	137,750
Depreciable capital assets, net	<u>18,736,744</u>	<u>19,257,645</u>
Net capital assets	<u>18,874,494</u>	<u>19,395,395</u>
OTHER ASSETS		
Deposits	<u>1,273</u>	<u>1,273</u>
Total other assets	<u>1,273</u>	<u>1,273</u>
Total assets	<u>\$ 24,061,342</u>	<u>\$ 24,570,792</u>

The notes to the financial statements are an integral part of this statement.

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Statements of Net Assets

December 31, 2006 and 2005

	2006	2005
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 24,849	\$ 42,589
Current maturities of long-term debt	324,000	320,000
Accrued salaries and benefits	16,150	158
Accrued bond interest	57,849	61,352
Accrued leave	23,439	15,778
Total current liabilities	<u>446,287</u>	<u>439,877</u>
LONG-TERM DEBT		
Bonds payable	5,384,000	5,604,000
Less current maturities	<u>(324,000)</u>	<u>(320,000)</u>
Net long-term debt	<u>5,060,000</u>	<u>5,284,000</u>
Total liabilities	<u>5,506,287</u>	<u>5,723,877</u>
NET ASSETS		
Investment in capital assets, net of related debt	12,992,645	13,730,043
Restricted for:		
Debt Service	978,676	968,516
Unrestricted	<u>4,583,734</u>	<u>4,148,356</u>
Total net assets	<u>18,555,055</u>	<u>18,846,915</u>
Total liabilities and net assets	<u>\$ 24,061,342</u>	<u>\$ 24,570,792</u>

The notes to the financial statements are an integral part of this statement.

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Statements of Revenues, Expenses and Changes in Net Assets For the Year Ended December 31, 2006 and 2005

	2006	2005
OPERATING REVENUES (pledged as security for revenue bonds)		
Sewer service charges from participating agencies	\$ 1,106,829	\$ 1,060,180
Septic dump fees	25,590	16,880
Farm lease revenue	2,270	755
Other income	321	2,622
Total operating revenues	<u>1,135,010</u>	<u>1,080,437</u>
OPERATING EXPENSES BEFORE DEPRECIATION	<u>871,887</u>	<u>791,776</u>
NET OPERATING INCOME BEFORE DEPRECIATION	263,123	288,661
DEPRECIATION	<u>778,497</u>	<u>813,365</u>
NET LOSS FROM OPERATIONS	<u>(515,374)</u>	<u>(524,704)</u>
NON-OPERATING INCOME AND (EXPENSE)		
Interest income	186,874	165,919
Bond interest expense	(63,745)	(67,888)
Gain (loss) on sale of assets	<u>385</u>	<u>(1,246)</u>
Total non-operating income and (expense)	<u>123,514</u>	<u>96,785</u>
DECREASE IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(391,860)	(427,919)
Contributed capital	<u>100,000</u>	<u>40,000</u>
DECREASE IN NET ASSETS	(291,860)	(387,919)
NET ASSETS, BEGINNING OF THE YEAR	<u>18,846,915</u>	<u>19,234,834</u>
NET ASSETS, END OF THE YEAR	<u>\$ 18,555,055</u>	<u>\$ 18,846,915</u>

The notes to the financial statements are an integral part of this statement.

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Statements of Cash Flows

For the Year Ended December 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from participating agencies	\$ 1,092,602	\$ 1,054,985
Payments to suppliers of goods and services	(565,301)	(455,764)
Payments to employees for services	(300,834)	(287,071)
Other receipts	27,606	18,142
Total cash flows from operating activities	<u>254,073</u>	<u>330,292</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contributions received	100,000	40,000
Additions to property, plant, and equipment	(286,712)	(106,350)
Proceeds from the sale of capital assets	29,500	24,200
Proceeds from issuance of bonds	100,000	
Principal payments on bonds payable	(320,000)	(316,000)
Interest paid on long-term debt	(67,248)	(71,040)
Net cash used by capital and related financial activities	<u>(444,460)</u>	<u>(429,190)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income received	186,394	154,552
Long-term cash deposits	(156,255)	(4,023,854)
Net cash provided by investing activities	<u>30,139</u>	<u>(3,869,302)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(160,248)	(3,968,200)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>848,537</u>	<u>4,816,737</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 688,289</u>	<u>\$ 848,537</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net loss from operations	\$ (515,374)	\$ (524,704)
Adjustments to reconcile net loss from operations to net cash provided by operating activities:		
Depreciation	778,497	813,365
(Increase) decrease in:		
Receivable from participating agencies	(14,228)	(5,195)
Other accounts receivable	(575)	(2,115)
Prepaid expenses	(161)	(1,746)
Increase (decrease) in:		
Accounts payable	(17,740)	35,429
Accrued salaries and benefits	15,993	(520)
Accrued leave	7,661	15,778
Net cash provided by operating activities	<u>\$ 254,073</u>	<u>\$ 330,292</u>

The notes to the financial statements are an integral part of this statement.

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Notes to the Financial Statements December 31, 2006 and 2005

1. SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

History and Business Activity

Ashley Valley Sewer Management Board (the "Board") was established in 1980 by authority of the Utah "Interlocal Co-operation Act" by Vernal City, Ashley Valley Water and Sewer Improvement District, and Maeser Water and Sewer Improvement District to provide a sewage treatment facility to service their respective collections systems.

A six-member Board of Trustees governs the Ashley Valley Sewer Management Board. Each of the three Participating Agencies to the Interlocal agreement appoints two members to the Board of Trustees.

Reporting Entity

Based on the criterion identified in Governmental Accounting Standards Board Statement No. 14, Management has determined that the board is not a component unit of another government entity, nor should the Board include in its basic statements, other government entities as component units.

Basis of Accounting

The Board is a governmental unit that is accounted for as a business-type activity. The Board's basic financial statements are presented on the full accrual basis of accounting and conform to accounting principles generally accepted in the United States of America. The Board has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable pronouncements of the Governmental Accounting Standards Board ("GASB") as well as any applicable pronouncements of the Financial Accounting Standards Board ("FASB"), Accounting Principles Board ("APB"), and Accounting Research Bulletins ("ARB"), issued after November 30, 1989.

The accounting and financial reporting treatment applied to the Board is determined by its measurement focus. The transactions of the Board are accounted for on a flow-of-economic-resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statements of net assets. Net assets (i.e. total assets net of total liabilities) are segregated into the following categories: invested in capital assets, net of related debt; restricted for debt service; and restricted components.

Net Assets

The Board's net assets are classified as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of the Board's total investment in capital assets, net of accumulated depreciation, reduced by the outstanding balance of bonds that are attributable to the acquisition, construction or improvement of those assets.
- *Restricted* – This component of net assets consists of constraints imposed by creditors (such as debt covenants and/or sinking fund requirements).
- *Unrestricted* – This component of net assets consists of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Budgetary Accounting

The Board is required by state statute to adopt a budget prior to the beginning of each fiscal

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Notes to the Financial Statements December 31, 2006 and 2005

year. The Board prepares and reports its budget on a basis consistent with GAAP with the following exceptions:

- Bond principal payments are budgeted as nonoperating expenditures.
- Depreciation is not budgeted.
- Capital expenditures are budgeted as nonoperating expenditures.

Classification of Revenue

- *Operating revenues* – Operating revenues include activities that have the characteristics of exchange transactions such as sewer service charges, manhole dump fees, compost sales, and farm lease revenue.
- *Non-operating revenues* – Non-operating revenues include activities that have the characteristics of non-exchange transactions and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34. Examples of non-operating revenues would be contributed capital, interest income, and gain or loss on sale of assets.

Cash and Cash Equivalents

For purposes of the statements of cash flows, all investment instruments purchased with an original maturity of three months or less are considered to be cash equivalents.

Bad Debts and Allowance for Doubtful Accounts

The Board does not record bad debt expense or an allowance for doubtful accounts on delinquent fees. All significant fees are collected within 60 days of year-end.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Significant estimates used in preparing these financial statements include those assumed in calculating depreciation expenses. It is at least reasonably possible that the significant estimates used will change within the next year.

Capital Assets

The Board defines capital assets as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Costs include materials, transportation, and interest on funds borrowed to finance construction. Capital assets are categorized as either non-depreciable or depreciable capital assets.

- *Non-depreciable capital assets* – This category includes inexhaustible capital assets, such as land and land improvements.
- *Depreciable capital assets* – Assets in this category included all exhaustible capital assets. These assets are recorded at cost, and contributed assets are valued at their estimated fair market value on the date of the contribution. Additions and improvements that significantly extend the useful life of an asset are capitalized, whereas maintenance and repair costs are charged to current period operating expenses. These assets are depreciated over their remaining useful lives.

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Notes to the Financial Statements December 31, 2006 and 2005

Depreciation has been calculated over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

- Mechanical sewer plant 5-40 years
- Lift stations and sewer lines 15-50 years
- Machinery and equipment 5-15 years
- Transportation equipment 5-10 years
- Land improvements 15 years

The cost and accumulated depreciation of property sold or retired is deducted from capital assets, and any profit or loss resulting from the disposal is credited or charged in the non-operating section of the statements of revenues, expenses, and changes in net assets.

Interest Capitalization

The Board follows Financial Accounting Standards Board Statement No. 62 concerning the capitalization of interest for qualifying assets. For the years ended December 31, 2006 and 2005, no interest was capitalized.

Flow Assumptions for Restricted Resources

Whenever the Board has the option of using either restricted or unrestricted resources to make certain payments (such as capital construction costs being financed partially from restricted grants and partially from the Board's own funds) the Board's policy is to use restricted resources first.

2. DEPOSITS AND INVESTMENTS

Deposits and investments for local governments are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of the Board's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Board's deposits may not be recovered. The Board's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the Board to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

As of December 31, 2006 the carrying amount of the Board's deposits was \$4,270,728 and the bank balance was \$4,318,348. Of the bank balance, \$300,000 was covered by federal deposit insurance. The remaining balance, \$4,018,348, was uninsured and uncollateralized.

As of December 31, 2005 the carrying amount of the Board's deposits was \$4,089,365 and the bank balance was \$4,086,365. Of the bank balance, \$262,486 was covered by federal deposit insurance. The remaining balance, \$3,823,879, was uninsured and uncollateralized.

Credit Risk

Investments – Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The Board's policy for limiting the credit risk of investments is to comply with the

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Notes to the Financial Statements December 31, 2006 and 2005

Money Management Act.

The Board is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

As of December 31, 2006 the Board had investments of \$597,670 with the PTIF; and as of December 31, 2005 the Board had investments of \$799,804 with the PTIF. The entire balance s had a maturity of less than one year. The PTIF pool has not been rated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Board manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Board's long-term cash deposits may be withdrawn at anytime with no loss of principal.

3. CAPITAL ASSETS

The changes in property, plant, and equipment for the year ended December 31, 2006 are as follows:

	12/31/2005	Increase	Decrease	12/31/2006
Nondepreciable capital assets:				
Land	\$ 137,750			\$ 137,750
Construction in progress	-			-
Total nondepreciable capital assets	137,750	-	-	137,750
Depreciable capital assets:				
Mechanical sewer plant	17,454,089	204,348		17,658,437
Lift stations and sewer lines	6,791,665			6,791,665
Machinery and equipment	684,888	38,429	(2,667)	720,650
Mobile equipment	237,148	43,934	(40,498)	240,584
Land improvements	27,061			27,061
Total depreciable capital assets at historical cost	25,194,851	286,711	(43,165)	25,438,397
Less accumulated depreciation for:				
Mechanical sewer plant	(2,812,344)	(583,314)		(3,395,658)
Lift stations and sewer lines	(2,704,318)	(139,500)		(2,843,818)
Machinery and equipment	(311,004)	(24,688)	2,667	(333,025)
Mobile equipment	(103,226)	(29,191)	11,383	(121,034)
Land improvements	(6,314)	(1,804)		(8,118)

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Notes to the Financial Statements December 31, 2006 and 2005

Total accumulated depreciation	<u>(5,937,206)</u>	<u>(778,497)</u>	<u>14,050</u>	<u>(6,701,653)</u>
Depreciable capital assets, net	<u>19,257,645</u>	<u>(491,786)</u>	<u>(29,115)</u>	<u>18,736,744</u>
Total capital assets, net	<u>\$ 19,395,395</u>	<u>\$ (491,786)</u>	<u>\$ (29,115)</u>	<u>\$ 18,874,494</u>

The changes in property, plant, and equipment for the year ended December 31, 2005 are as follows:

	<u>12/31/2004</u>	<u>Increase</u>	<u>Decrease</u>	<u>12/31/2005</u>
Nondepreciable capital assets:				
Land	\$ 137,750			\$ 137,750
Construction in progress	-			-
Total nondepreciable capital assets	<u>137,750</u>	<u>-</u>	<u>-</u>	<u>137,750</u>
Depreciable capital assets:				
Mechanical sewer plant	17,383,027	71,062		17,454,089
Lift stations and sewer lines	6,791,665			6,791,665
Machinery and equipment	672,323	12,565		684,888
Mobile equipment	276,387	22,723	(61,962)	237,148
Land improvements	27,061			27,061
Total depreciable capital assets				
at historical cost	<u>25,150,463</u>	<u>106,350</u>	<u>(61,962)</u>	<u>25,194,851</u>
Less accumulated depreciation for:				
Mechanical sewer plant	(2,194,823)	(617,523)	2	(2,812,344)
Lift stations and sewer lines	(2,564,818)	(139,500)		(2,704,318)
Machinery and equipment	(287,709)	(23,295)		(311,004)
Mobile equipment	(108,499)	(31,243)	36,516	(103,226)
Land improvements	(4,510)	(1,804)		(6,314)
Total accumulated depreciation	<u>(5,160,359)</u>	<u>(813,365)</u>	<u>36,518</u>	<u>(5,937,206)</u>
Depreciable capital assets, net	<u>19,990,104</u>	<u>(707,015)</u>	<u>(25,444)</u>	<u>19,257,645</u>
Total capital assets, net	<u>\$ 20,127,854</u>	<u>\$ (707,015)</u>	<u>\$ (25,444)</u>	<u>\$ 19,395,395</u>

4. LONG-TERM DEBT

Series 1999 Taxable Sewer Revenue Bonds

In 1999 the Board issued revenue bonds totaling \$6,846,000. The proceeds of the bonds were used to help finance the construction of the mechanical sewer treatment facility. These bonds bear interest at 1.2%, and required principal and interest debt service payments are due on

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Notes to the Financial Statements December 31, 2006 and 2005

February 1st of each year through 2021.

In 2006 the Board issued revenue bonds totaling \$100,000. The proceeds from the bonds were used to help finance the construction of a compost-drying pad, a building, and the purchase of a video surveillance security system. These bonds bear no interest and payments are \$5,000 annually on February 1st each year 2008 through 2027.

Changes to the Board's long-term debt are as follows:

	2006	2005
Total long-term debt at beginning of year	\$ 5,604,000	\$ 5,920,000
Revenue bonds issued	100,000	
Revenue bond retirements	(320,000)	(316,000)
Total long-term debt at end of year	5,384,000	5,604,000
Less current portion	(324,000)	(320,000)
Noncurrent portion of long-term debt	<u>\$ 5,060,000</u>	<u>\$ 5,284,000</u>

Future debt service payments are as follows:

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	324,000	63,408	387,408
2008	333,000	59,520	392,520
2009	337,000	55,584	392,584
2010	340,000	51,600	391,600
2011	344,000	47,580	391,580
2012-2016	1,785,000	175,800	1,960,800
2017-2021	1,891,000	67,680	1,958,680
2022-2026	25,000		25,000
2027	5,000		5,000
Total bonds payable	<u>\$ 5,384,000</u>	<u>\$ 521,172</u>	<u>\$ 5,905,172</u>

The 1999 Series Taxable Sewer Revenue Bonds require a "Sinking Fund" consisting of a "Bond Account," a "Reserve Account," and an "Emergency Reserve Account." The required balance in the "Bond Account" is \$387,408 and \$387,248 at December 31, 2006 and 2005, respectively. The required balances in the "Reserve Account" and the "Emergency Reserve Account" are \$387,512 and \$193,756, at December 31, 2006 and 2005 respectively. The Board funded the sinking fund with the required amounts.

The 2006 Series Taxable Sewer Revenue Bonds require sinking fund consisting of a "Bond Account," and a "Reserve Account". The required balances in the "Bond Account" and the

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Notes to the Financial Statements December 31, 2006 and 2005

"Reserve Account" increase over time to a maximum of \$5,000 in each account. The Board funded the sinking fund with the maximum required amounts.

These bonds are secured by a first lien on net revenues earned by the Board. Net revenues are defined in the bond agreements. The Board is required to establish user fees and rates that will yield net revenues equal to at least 125% of the average Annual Debt Service.

5. RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Board has obtained commercial insurance coverage to reduce the risk of loss to a level acceptable by the Board.

The Board's insurance policies in force at December 31, 2006 are as follows:

Type of Policy	Policy No.	Name of Company	Policy Period
General Liability Auto Bodily Injury Auto Property Damage Personal Injury Protection Underinsured Motorist Uninsured Motorist No-Fault Sewer Clean-up	10120-GL2006	Utah Local Governments Trust	10/1/06 to 10/1/07
Property	PX809764	Utah Local Governments Trust	7/1/06 to 7/1/07
Fidelity Bond	UP01169396	Old Republic Surety Company	1/1/06 to 12/31/06
Workers Compensation	10120-WC	Utah Local Governments Trust	1/1/06 to 1/1/07

Settled claims have not exceeded commercial excess coverage in any of the past three years.

8. LOCAL GOVERNMENTAL – COST SHARING PENSION PLAN

Plan Description

The Board contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) of the Utah Retirement Systems, which is a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the directions of the Utah State Retirement Board (Retirement Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

ASHLEY VALLEY SEWER MANAGEMENT BOARD

Notes to the Financial Statements December 31, 2006 and 2005

Funding Policy

The Board is required to contribute a percent of covered salary to the Noncontributory System. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Retirement Board. The contribution rates in effect for calendar years 2006 and 2005 were: 11.090% for the period January 2005 through December 2005; 11.090% for the period January 1, 2006 through June 30, 2006; and 11.590% for the period July 1, 2006 through December 31, 2006.

Contributions

The Board's contributions to the Noncontributory System for the years ended December 31, 2006, 2005, 2004, and 2003 respectively were \$32,346, \$ 28,370, \$25,773, and 20,668.

Defined Contribution Retirement Plan

The Board also maintains a defined contribution 401(k) plan, also administered by the Utah Retirement Systems. The plan is available to all employees who meet certain age and length-of-service eligibility requirements. Voluntary salary deferred contributions may be made by all eligible employees.

7. RELATED PARTY TRANSACTIONS

Board members and members of management live within the Board's boundaries and are customers of the participating entities.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Ashley Valley Sewer Management Board
Vernal, Utah

We have audited the accompanying statements of net assets; revenues, expenses, and changes in net assets; and cash flows of Ashley Valley Sewer Management Board (Board), as of and for the years ended December 31, 2006 and 2005, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated July 2, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ashley Valley Sewer Management Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ashley Valley Sewer Management Board's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that

there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. See findings 06-1 and 06-2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the findings above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ashley Valley Sewer Management Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Ashley Valley Sewer Management Board's response to the findings identified in our audit is included in the accompanying schedule of findings and responses. We did not audit the Board's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of the Board of Directors, management, and the Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Caldwell, Coombs & Foley, LLP

Vernal, Utah
July 2, 2007

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Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS CONDUCTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Ashley Valley Sewer Management Board
Vernal, Utah

We have audited the basic financial statements of Ashley Valley Sewer Management Board (Board) as of and for the year ended December 31, 2006, and have issued our report thereon dated July 2, 2007. As part of our audit, we have audited the Board's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2007. The Board received the following major assistance programs from the State of Utah:

Community Impact Grants (DCC, Housing & Community Development Division)
Community Impact Loans (DCC, Housing & Community Development Division)

Our audit included test work on the Board's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt
Purchasing Requirements
Other General Compliance Issues

Cash Management
Budgetary Compliance

The management of Ashley Valley Sewer Management Board is responsible for the Board's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

Ashley Valley Sewer Management Board
Auditor's Report on State Compliance (continued)

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and responses. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion Ashley Valley Sewer Management Board complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2006.

Caldwell, Coombs & Foley, LLP

Vernal, Utah
July 2, 2007

Ashley Valley Sewer Management Board
Findings and Responses
For the Year Ended December 31, 2006

INTERNAL CONTROL OVER FINANCIAL REPORTING

06-1. Preparation of Financial Statements

Finding – Board personnel lack the skills and knowledge to apply generally accepted accounting principles in preparing its financial statements. The Board relies on its independent auditors to prepare the financial statements, subject to management oversight and review.

Recommendation – The directors may wish to evaluate whether it is practical for existing Board personnel to obtain additional accounting training, whether it is economically reasonable and practical to employ additional personnel or outside contractors who possess the required advanced accounting skills, or whether it is most practical and efficient to continue the current arrangement with the Board's independent auditors while maintaining management oversight over the services so as not to impair the auditor's independence.

Board Response – The Board expects to continue the current system.

06-2. Data Security – Backup

Finding – We determined from interviews with the general manager and secretary that no formal system for backing up computer data is in place. The secretary makes backups of accounting data approximately monthly. No backups are being made of other data systems. There is no provision for off-site storage of data backups.

Recommendation – The board should consider formal data security procedures designed to prevent loss of important data due to computer malfunctions or damage caused by fire, flood, vandalism or other problems. A system might include regularly scheduled rotating data backups with off-site storage of the backups.

Board Response – The Board is currently reviewing options for backing up its computer data.

Ashley Valley Sewer Management Board
Findings and Responses
For the Year Ended December 31, 2006

STATE LEGAL COMPLIANCE

06-3 Budget Overage

Finding – We noted that expenses exceeded budget appropriations because depreciation expense was not budgeted.

Criteria – Utah State Law requires the Board to adopt an annual budget. The budget is to include all estimated income and expenses.

Recommendation – We recommend the Board include depreciation expense in its budget.

Board Response – We will consider the recommendation.

06-4 Treasurer's Bond

Finding – We noted the bond on the Board's treasurer for 2006 was for \$72,000. The bond required by State Law was \$77,856.

Criteria – *Utah Code 51-7-15* and Rule 4 of the Utah Money Management Council require every public treasurer to secure a fidelity bond, based on the previous year's budgeted gross revenues, which includes all funds collected or handled by the public treasurer, in the amount determined by a table provided in the law.

Recommendation – We recommend the Board increase the bond coverage on the treasurer to the amount required for 2007. We further recommend that the Bond be reviewed at the beginning of each year and should be increased as necessary based on the preceding year's budgeted gross revenues.

Board Response – We have already requested an increase in the treasurer's bond.